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Annotated

Contribution to Financial Sitrep  
14 Feb. 85

Yugoslavia

In late January, Yugoslav Deputy Foreign Affairs Secretary Loncar met with ambassadors of the sixteen "Friends of Yugoslavia" countries to exhort them to "take a positive step" towards some form of multiyear rescheduling. Loncar asserted that Yugoslavia's banking creditors are insisting on strict comparability between bank and government rescheduling arrangements. He implied that the multiyear rescheduling Yugoslavia hopes to conclude soon with the banks would not be possible if governments continue to reject such an arrangement.

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According to Embassy reporting, Belgrade apparently called the meeting because it believed that some governments were wavering in their opposition to a multiyear rescheduling. Loncar may have deliberately overstated the banks' position on comparability of treatment in hopes of weakening the governments' resistance to a multiyear arrangement.

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Yugoslavia has also been keeping a watchful eye on Brazil's rescheduling negotiations, believing that a multiyear precedent may be established that will help Belgrade press its case.

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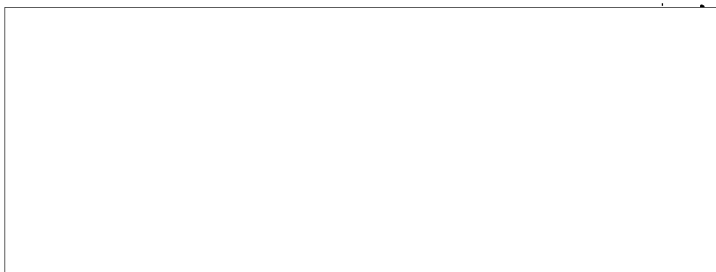
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Despite Belgrade's efforts, key Western governments have reiterated to US embassies their opposition to a multiyear rescheduling for Yugoslavia in 1985. A late-March meeting of the Paris club has been scheduled on condition that Yugoslavia first agree to a 1985 standby agreement with the IMF, which is currently negotiating with Belgrade. The Fund is likely to take a firm stand on attainment of positive real interest rates; difficult talks with the Fund that might delay final agreement with official and commercial creditors.

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East Germany

According to press reports, three major US banks--Bank of America, Citibank, and Manufacturers Hanover--as well as the Bank of Tokyo are putting together a \$150 million loan to East Germany's foreign trade bank. [REDACTED]

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[REDACTED] US banks were excluded from last year's \$400 million syndication and have been interested in increasing lending to East Germany after years of skepticism about East Berlin's creditworthiness. We expect the East Germans to return occasionally to the medium-term credit markets this year, mainly to refinance maturing debt. [REDACTED]

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Poland

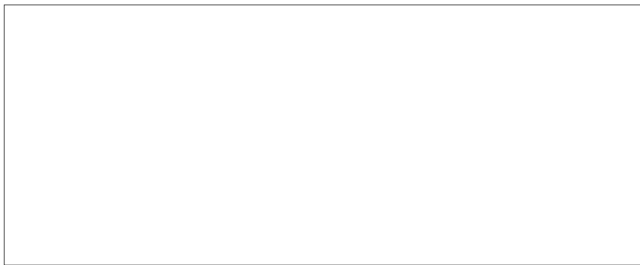
Meanwhile, Paris Club chairman Trichet has warned the Poles that the meeting scheduled for March 5 to 6 will be cancelled unless Warsaw makes payments on arrears from the 1981 rescheduling agreement--worth \$124 million--that were due in January at the initialing of the agreement to reschedule 1982-84 debt repayments. The US, West Germany, and France so far have not received their payments, and it is not known if Poland has repaid other creditor countries. Warsaw had agreed to repay 30 percent of its 1981 arrears, including late charges due as of December 31, 1984 at the time of the initialing. The Poles already paid 20 percent of these arrears--worth \$80 million--when Paris Club negotiations were resumed last year and have promised to repay the remaining 50 percent--\$208 million--when bilateral agreements are signed with creditor countries. [REDACTED]

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According to press reports, an IMF team arrived in Warsaw on 7 February to begin talks with government officials on Poland's application to join the Fund. Polish officials believe that IMF membership is attainable within six months, but IMF officials suggest formal action will not take place until six months or more after detailed information on prices, subsidies, and exchange and interest rates has been supplied to the Fund. The IMF does not anticipate a decision on Warsaw's application before the Fund's annual meeting late next summer. [REDACTED]

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